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Dairy and Products Annual

European Dairy Industry Adjusts to the Post-Quota Realities.

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Report Highlights:

Despite of the drop of farm-gate milk prices and reduced export demand for cheese and whole dried milk, deliveries of milk in the European Union are expected to increase by 1.1 percent in 2015 and continue to grow into 2016. Increased milk production is expected to be mainly processed into butter and non-fat dried milk, which remain in demand on the world market. In 2015 the European Commission introduced market intervention measures which are expected to help farmers to adjust to the new market situation after termination of milk quota system on March 31, 2015.

DISCLAIMER

The PS&D numbers in this report are not official USDA numbers. The numbers are the result of a group effort by the individual FAS EU offices to consolidate PS&D's from all EU-28.

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General Information

Production

2015

In 2015 EU-28 milk production is expected to increase by 1.1 percent as a result of higher inventories of dairy cows and termination of the milk quota system. After a record 4.6 percent increase of milk deliveries in 2014 the pace of increase of milk deliveries is expected to slow down in 2015. Reduced imports from China, continuation of the Russian ban on imports of dairy products and fluctuations of world market prices are the major reasons for the drop of farm-gate prices for milk and the slower increase in milk deliveries in 2015 as compared to 2014. In August 2015 the average EU farm-gate milk price was 20 percent lower than a year ago and 14 percent lower than the last 5 years' average. A drought which affected some member states in July and August 2015 is expected to reduce supplies of roughages in the second half of 2015 and first half of 2016 resulting in higher production costs and an increased culling rate of cows. However, increased culling of dairy cows is expected to have a positive impact on the average milk yield of cows in 2015 and 2016 as farmers will keep their best cows and get rid of lower producing animals.

Although the EU milk quota system ended on March 31, 2015, it is expected that farmers from 13 member states still have to pay an estimated Euro 800 million in fines (superlevy) for exceeding the milk quota in the 2014/2015 quota year (QY). In response to protests from farmers demanding the cancelation of fines in the last quota year, the European Commission allowed member states to pay the fines in three annual installments.

Higher milk production in 2015 is expected to result in higher output of Non Fat Dried Milk (NFDM), cheese and butter. The output of Whole Dry Milk (WDM) is expected to decline in comparison to 2014 because of reduced export demand. The Russian import ban on European dairy products is expected to limit growth of cheese production in 2015. Increased share of NFDM and butter in dairy processing in 2015 stems from their competitiveness on the world market attributed partly to a cheaper euro versus the U.S. dollar.

2016

It is forecast that milk deliveries will continue to grow in 2016, mainly because of higher yields of cows. However, the pace of increase will be slower than in 2015 because of the limited supplies of roughages in the first half of 2016 and the low level of farm-gate milk prices. The increase in milk production in 2016 is forecast to be directed mostly towards NFDM and butter production, which are expected to be in demand on the international market and will be covered by the EU market intervention programs.

Consumption

In 2015 higher output of dairy products will be directed mainly to export and the remaining part to domestic consumption or/and intervention, private storage aid (PSA) and commercial stocks. Higher production of milk in 2015 is expected to result in increased domestic consumption of cheese and NFDM while consumption of butter and fluid milk is expected to decline. Consumption of WDM is expected to remain at the previous years' level.

Trade

2014

In response to growing import demand from Algeria, China, and Egypt, 2014 exports of NFDM increased by almost 60 percent. Although 2014 exports of fluid milk, butter, and WDM increased by 33, 17, and 4 percent, respectively, their growth of trade in comparison to 2013 has not been as spectacular as for NFDM. The decrease in world market prices for cheese and the introduction of a ban on imports of dairy products by Russia on August 7, 2014 reduced EU28 exports of cheese in 2014.

2015

During the first seven months of 2015 exports of cheese were 11 percent lower compared to the same period of 2014. Exports of cheese are expected to recover in the second half of 2015 due to increased sales to the United States, Japan, and South Korea. Exports of butter are expected to continue in 2015 because of competitive prices on the world market and stocks built in 2014. Most of the increase in NFDM production in 2015 is expected to be directed to exports. In the first seven months of 2015 exports of NFDM increased by 9 percent in comparison to the same period of 2014. However, export destinations of NFDM have changed because exports to Algeria decreased by 30 percent while shipments to Egypt, Philippines, Thailand and especially Pakistan increased significantly. In the first seven months of 2015 exports of WDM were reduced by 5 percent. Lower exports of WDM to Algeria and Nigeria were partly offset by higher shipments to Oman.

Termination of Milk Quota System

As of March 31, 2015, the EU system of milk quota was terminated. Post quota increases in milk deliveries in 2015 and 2016 are expected to return to the pattern of a one percent increase per year. In the longer run the decrease in prices for dairy products in the EU28 observed in the first three quarters of 2015, accompanied by a weakening of the Euros makes EU dairy products more competitive on the world market and is expected to stimulate exports towards the end of 2015 and into 2016.

Impact of Russian Ban

In August 2015 Russia extended its ban on imports of agricultural products for another year. The Russian ban adversely affected EU28 exports of cheese in 2014. In 2014 EU28 exports of cheese to Russia dropped by 48 percent in comparison to 2013. The Baltic countries, Finland, the Netherlands, Germany, and Poland were mostly affected by the ban. However, exporters adjusted to the situation by increasing sales to other markets like the United States, Switzerland, and South Korea. In 2014 EU28 exports of butter were not affected by the Russian ban because of increased exports to Saudi Arabia, the United States, and Egypt. In the first seven months of 2015 exports of butter were 16 percent higher than a year ago due to higher shipments to Saudi Arabia, the United States and Singapore.

Market Intervention

The introduction of a Russian ban in August 2014 and the drop of prices for dairy commodities in the first three quarters of 2015 forced the European Commission to re-open a public intervention period for butter and skim milk powder (SMP), and Private Storage Aid (PSA) for butter, SMP and cheese to stabilize the European dairy market. Originally the decision was introduced for the period of September 5 to December 31, 2014, but then it was followed by series of extensions of the PSA and public intervention programs until February 29, 2016. The principle of the PSA program is for the European Commission to pay processors to keep butter and skim milk powder in storage off the market for an agreed period of time. The public intervention is based on purchase and storage of butter and SMP

made by the European Commission. As of September 20, 2015, 150,020 MT of butter and 48,725 MT of SMP have been offered to private storage since September 2014, while 19,735 MT of SMP have been purchased by the European Commission within the public intervention scheme. There is a nominal overall limit of 109,000 MT of SMP and 30,000 MT of butter that can be sold into intervention in any marketing year (July-June), although these caps may be suspended in the event of a major market collapse. Despite pressure from some member states and farm organizations, the European Commission continues to reject the idea of raising the intervention price level for butter and SMP. The continuation of the Russian ban may result in extension of the PSA after February 2016 for butter and SMP. In response to falling farm-gate milk prices and farmers' protests, the European Commission announced in September 2015 an emergency package of PSA for NFDM financed from the 2014/2015 superlevy fines paid by the member states. As part of this package, the intervention limit for butter was raised to 50,000 MT for 2015. On October 1, 2015 the European Commission announced the details of the new emergency Private Storage Aid program for cheese. According to the preliminary information, 100,000 MT of cheese and storable cheese products will be eligible for the PSA program which is expected to start in the second half of October 2015. Member states will also be allowed to "top up" their allocation received from the EU targeted aid for dairy farmers with the national funds.

Commodities:

Dairy, Milk, Fluid

Dairy, Milk, Fluid Market Begin Year European Union	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	23,481	23,481	23,500	23,557	0	23,550
Cows Milk Production	146,500	146,500	147,000	148,100	0	149,000
Other Milk Production	4,750	4,350	4,750	4,350	0	4,350
Total Production	151,250	150,850	151,750	152,450	0	153,350
Other Imports	10	10	16	10	0	10
Total Imports	10	10	16	10	0	10
Total Supply	151,260	150,860	151,766	152,460	0	153,360
Other Exports	560	560	500	660	0	660
Total Exports	560	560	500	660	0	660
Fluid Use Dom. Consum.	34,466	34,066	34,470	34,000	0	34,000
Factory Use Consum.	116,234	116,234	116,796	117,800	0	118,700
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	150,700	150,300	151,266	151,800	0	152,700
Total Distribution	151,260	150,860	151,766	152,460	0	153,360
(1000 HEAD) ,(1000 MT)						

Production:

2014

In 2014 EU-28 milk deliveries increased by 4.6 percent year-on-year due to good supplies and quality of feed at low prices. In a majority of EU member states farm-gate milk prices were highly stimulated by strong export demand. Farmers started in advance to adjust to the ending of the milk quota system by building cow inventories and increasing milk production. Farm-gate milk prices started to decrease in the last quarter of 2014 because of oversupplies of milk and reduced export demand. However, farmers continued to produce milk and did not react to the market signals.

2015

After the 2014 increase, dairy cow numbers are expected to stabilize in 2015 because, in light of dropping farm-gate milk prices, farmers are expected to increase culling rates and hold up expansion of herds until the situation on the dairy market improves. However, despite lower farm-gate milk prices, some farmers are not expected to reduce milk production. They are dependent on the revenue to pay back credits taken in 2013 and 2014 to enlarge and modernize their farms in expectation of the approaching termination of the milk quota system and pay fines for over-quota production in 2014/2015QY. Continued enhancement of genetics in national herds is expected to generate higher per cow milk yield averages in 2015 and 2016.

The drop of farm-gate milk prices continued in the first three quarters of 2015 because of oversupplies of milk stemming from high production in 2014 caused by reduced import demand and growing stocks of NFDm and butter. Farmers realized that they would overshoot the 2014/2015 quota and reduced production in the first quarter of 2015, but deliveries recovered in the second and third quarters of 2015. In the first seven months of 2015 milk deliveries were 1.1 percent higher than in the same period of record 2014. Lower supplies of hay and corn silage stemming from the July-August drought in Central Europe are expected to reduce feed availability in the last quarter of 2015 and into 2016 and result in higher production costs and reduction of deliveries in comparison to the second and third quarters of 2015. Although the pace of milk deliveries in 2015 is expected to decrease in comparison to 2014, the volume of milk produced combined with reduced export demand creates a situation of **oversupplies** of milk on the EU market. In 2015 overall milk deliveries are expected to increase by 1.1 percent in comparison to 2014.

Although the entire European Union suffers from reduced farm-gate prices and oversupplies of milk, there is strong diversity between the member states in the level of the dairy crisis. In Germany, the largest EU milk producer, production in the first seven months of 2015 was 0.7 percent higher than in the same period of 2014. In the first seven months of 2015 milk output was higher in the majority of Northern and Central European member states, while reduction of production was seen in the South of the EU.

2016

It is forecast that in 2016 milk production will continue to grow but the pace of increase will be slower than in 2015. Stable dairy cow inventories, the low level of farm-gate milk prices accompanied by limited hay and silage supplies in the first half of the year, the high stocks of NFDm and butter and the continuing Russian ban are expected to hamper the increase of milk output in the first half of 2016. The overall increase of milk deliveries in 2014-2016 is expected to amount to 6 percent which is in line with earlier projections of market analysts predicting an increase in milk supplies related to the termination of the milk quota system in the European Union.

Consumption:

In 2015 fluid milk consumption is expected to slightly decline and remain at the same level in 2016. Higher milk output in 2015 and 2016 will be mostly directed to the production of NFDm and butter.

Trade:

In the first seven months of 2015, extra EU-28 exports of fluid milk increased by 22 percent in comparison to the same period of 2014 driven by strong demand from China for UHT milk. It is expected that exports will continue towards the end of 2015 and into 2016.

Commodities:

Dairy, Cheese

Dairy, Cheese Market Begin Year European Union	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	32	32	0	50
Production	9,560	9,560	9,570	9,610	0	9,635
Other Imports	76	76	70	68	0	65
Total Imports	76	76	70	68	0	65
Total Supply	9,636	9,636	9,672	9,710	0	9,750
Other Exports	721	721	700	680	0	690
Total Exports	721	721	700	680	0	690
Human Dom. Consumption	8,883	8,883	8,972	8,980	0	8,980
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	8,883	8,883	8,972	8,980	0	8,980
Total Use	9,604	9,604	9,672	9,660	0	9,670
Ending Stocks	32	32	0	50	0	80
Total Distribution	9,636	9,636	9,672	9,710	0	9,750
(1000 MT)						

Production:

In 2015 EU-28 cheese production is expected to increase by 0.5 percent due to the higher availability of raw milk. However, reduced exports, caused mainly by the Russian ban, are expected to hamper further increase of output in 2015. Although world market demand for cheese remains strong, a loss of the Russian market, which translated into approximately 220,000 MT of cheese which was not exported to Russia in the period of August 2014 to August 2015, was severe for the EU dairy industry. As a result of higher production and reduced exports, domestic consumption of cheese and commercial stocks are expected to increase in 2015. Continuation of the Russian ban and reduced world market prices for milk commodities, including milk powders which are competing with cheese for raw milk supplies, are expected to reduce the pace of cheese production increase in 2016.

Consumption:

In 2015 the higher cheese output will be directed into domestic consumption and increased stocks. The EU-28 domestic cheese consumption is expected to increase in parallel with the economic recovery. In 2015 growing supplies and improving economic situations in some member states are expected to stimulate cheese consumption further leading to a one percent increase in overall consumption relative to 2014. It is forecast that in 2016 consumption will remain flat in comparison to the 2015 level mainly because of higher exports and re-allocation of commercial stocks into the PSA.

Trade:

It is expected that in 2015 exports of cheese will decrease by an estimated 6 percent due to the Russian ban. Although in the first seven months of 2015 EU28 exports of cheese were 11 percent lower than in the same period of the previous year, EU exporters continue to increase shipments to other destinations than Russia. In the first seven months of 2015 exports of cheese to the United States, Japan and South Korea increased by 21, 55 and 106 percent respectively. Other major external markets for EU28 cheeses include Switzerland, Saudi Arabia and North African countries. Cheese imports are projected to remain within the established import quotas.

Stocks:

On September 4, 2014 the European Commission issued Regulation (EU) 950/2014 opening a temporary exceptional private storage aid scheme for 155,000 MT of certain cheeses and fixing in advance the amount of aid. The program was closed on September 22, 2014 because according to the EC “it was disproportionately used” by certain member states. According to the September 2015 Milk Market Observatory (MMO)* report, in July 2015 the remaining PSA stocks of cheese amounted to 16,619 MT. In response to the difficult market situation the European Commission announced in September 2015 the opening of a new PSA scheme for 100,000 MT of cheese and all storable cheese products. National allocations of PSA for cheese based on production within the last three years were announced on October 1, 2015. The implementing regulation regarding the new PSA for cheese is expected to be published by the EC in the second half of October 2015. According to the Commission any unused allocations of PSA will be available for redistribution after three months to those countries that want to make greater use of the scheme.

**The MMO is an advisory group of experts/organizations created by the European Commission to monitor EU and world dairy market after the termination of milk quota system.*

Commodities:

Dairy, Butter

Dairy, Butter Market Begin Year European Union	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	24	24	22	22	0	120
Production	2,250	2,250	2,285	2,310	0	2,340
Other Imports	53	53	46	13	0	10
Total Imports	53	53	46	13	0	10
Total Supply	2,327	2,327	2,353	2,345	0	2,470
Other Exports	144	144	160	170	0	200
Total Exports	144	144	160	170	0	200
Domestic Consumption	2,161	2,161	2,173	2,055	0	2,070
Total Use	2,305	2,305	2,333	2,225	0	2,270
Ending Stocks	22	22	20	120	0	200
Total Distribution	2,327	2,327	2,353	2,345	0	2,470
(1000 MT)						

Production:

In 2015 butter production is expected to increase by 3 percent as a result of export demand and higher output of NFD, for which butter is a residual product. Higher export demand stems from competitive prices for European butter and reduced exports of U.S. butter to the world market. In addition, introduction of the Russian embargo slowed down the increase of cheese production in 2015, so milk that is not used for manufacturing of cheese is expected to be used for production of butter and NFD. Re-opening of PSA and public intervention by the European Commission through September of 2016 created an opportunity for processors to take advantage of this program and produce butter destined for PSA.

Consumption:

It is estimated that in 2015 the butter consumption number will decline because activation of PSA scheme in 2014 and 2015 created a possibility of re-allocating part of commercial stocks accumulated in 2014 and 2015 into the PSA stocks (“Ending stocks” row in the PSD table). As the overall EU-28

domestic butter consumption figure combines domestic consumption and commercial stocks of butter, 3 percent higher consumption of butter by food industry and consumers reported by the MMO in 2015 will not offset decrease of commercial stocks re-allocated to the PSA stocks.

Trade:

In 2015 exports of butter are expected to increase in comparison to the previous year's level due to higher output and competitive export prices. Lost exports to Russia are expected to be offset by higher exports to other destinations. In the first seven months of 2015 EU-28 exports of butter and butter oil increased by 16 and 96 percent respectively in comparison to the same period of 2014. Reduced prices make EU28 butter competitive even on the U.S. market. In the first seven months of 2015 EU28 exported 8,937 MT of butter to the United States, a 95 percent increase over the same period of 2014. Other export destinations for EU butter are Saudi Arabia and Egypt, while butter oil is mainly exported to China. In the first seven months of 2015, imports within the EU import quota set aside for New Zealand amounted to 5,606 MT, 82 percent less than in the comparative period of 2014.

Stocks:

Introduction of the Russian ban on agricultural products forced the European Commission to re-open the PSA scheme for butter for the period September 4 till December 31, 2014 followed by series of extensions of the PSA and public intervention programs to bridge the usual winter gap until February 29, 2016. According to the MMO report, in July 2015 PSA stocks of butter amounted to 89,745 MT mainly used by the Netherlands, Germany, France, Ireland and Belgium. Until September 20, 2015, 150,070 MT of butter were offered for PSA. It is expected that after the summer peak of production, amounts of butter offered for PSA will decrease in the last quarter of 2015. For butter, the EU aid is Euro18.93 per MT of storage for fixed storage costs, plus Euro 0.28 per MT per day of contractual storage. There is no ceiling on the volumes that can be stored. As of September 30, 2015, no butter has been sold to the intervention stocks. The butter buying-in price is set at Euro 221.75/100kilograms. The EU market prices currently remain above this level. The Common Agricultural Policy (CAP) limits the butter that can be sold into intervention to 30,000 MT. However, this amount was temporarily increased to 50,000 MT as part of the emergency package for the current dairy crisis. High ending 2015 PSA stocks combined with higher milk availability and access to PSA program are expected to lead to further increase of stocks through 2016.

Commodities:

Dairy, Milk, Nonfat Dry

Dairy, Milk, Nonfat Dry Market Begin Year	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	17	17	0	80
Production	1,550	1,550	1,620	1,670	0	1,730
Other Imports	2	2	2	3	0	2
Total Imports	2	2	2	3	0	2
Total Supply	1,552	1,552	1,639	1,690	0	1,812
Other Exports	646	646	710	700	0	780
Total Exports	646	646	710	700	0	780
Human Dom. Consumption	889	889	909	910	0	932
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	889	889	909	910	0	932

Total Use	1,535	1,535	1,619	1,610	0	1,712
Ending Stocks	17	17	20	80	0	100
Total Distribution	1,552	1,552	1,639	1,690	0	1,812
(1000 MT)						

Production:

After a 24 percent increase in 2014, output of NFDM is expected to grow by 8 percent in 2015. Higher supplies of milk and increased drying capacity mainly in Germany and France, as well as continuing demand from export markets are stimulating NFDM output in 2015. Opening of PSA in 2014 and public intervention purchases in 2015 by the European Commission is expected to stimulate production because higher supplies of milk will be mainly processed into NFDM and butter. Purchases of NFDM for public intervention stocks and allocation of funds for building PSA stocks are used by the European Commission as a part of the “safety net” program directed to support dairy producers and stop decrease of farm-gate milk prices.

Consumption:

Higher NFDM production in 2015 is expected to be directed mainly into export channels, public intervention, PSA stocks as well as domestic consumption. Please note that the category “domestic consumption” includes commercial stocks.

Trade:

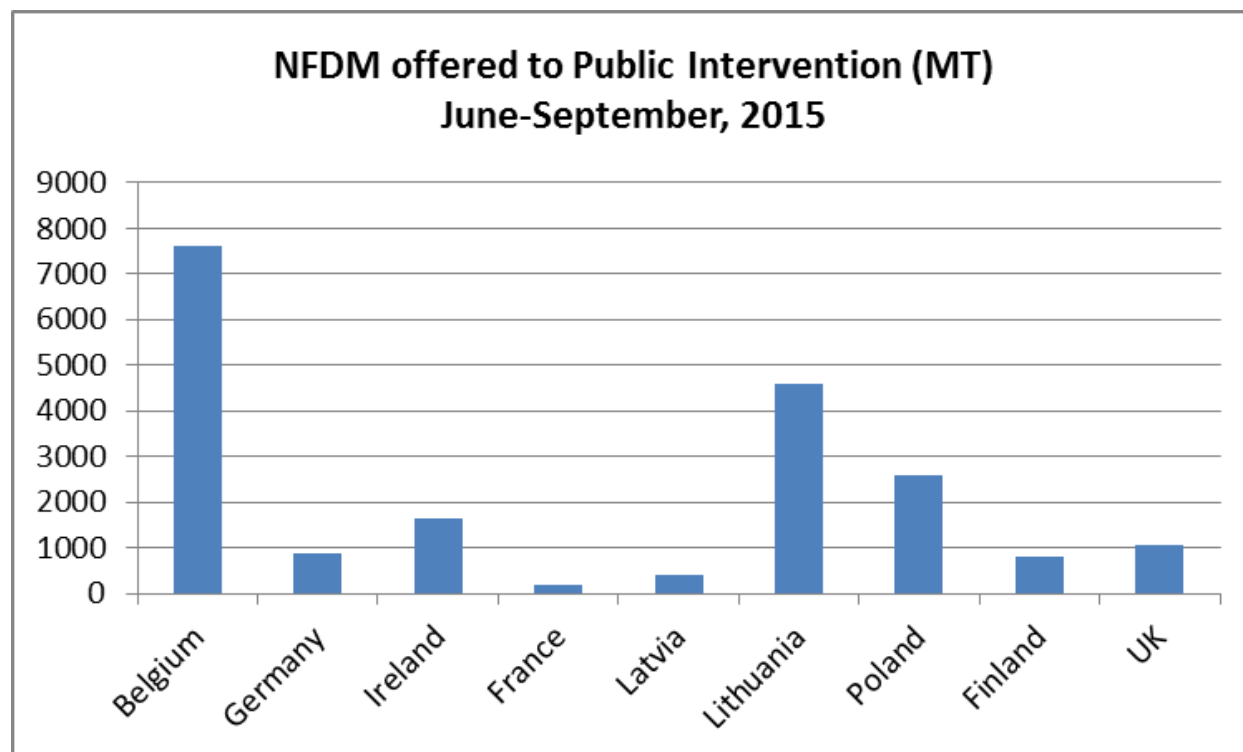
In the first seven months of 2015 exports of NFDM increased by 9 percent over the same period of 2014. The increase of NFDM exports in early 2015 stems from higher imports by Egypt, Thailand, Philippines, Pakistan and Vietnam. The increase of exports in 2015 results from competitive prices and increased EU28 production.

Stocks:

Introduction of the Russian ban on agricultural products forced the European Commission to re-open the PSA scheme for NFDM from September 4, 2014 with further extension to February 29, 2016. According to the MMO report in July 2015 PSA stocks of NFDM amounted to 23,472 MT. For NFDM the aid is Euro 8.86 per MT of storage for fixed storage costs, plus Euro 0.16 per MT per day of contractual storage, for 90-210 days. Since opening of the PSA program in September 2014, 48,725 MT of NFDM has been placed in storage, mostly by German, Irish, Spanish, Lithuanian and Dutch companies. There is no ceiling on the volumes that can be stored. In September 2015 the European Commission announced an additional emergency PSA package for NFDM to be opened in the fall of 2015. The new PSA scheme will be funded by 2014/2015 milk quota superlevy fines paid by member states. According to preliminary information new PSA will have rates which will fully cover storage costs, there will be no volume ceiling and storage time will be fixed for one year. The new PSA scheme for NFDM will run alongside the one which is already in place and will continue into 2016 giving producers a choice between the two.

For the first time since 2008 NFDM is being sold into public intervention program. If average prices of NFDM fall below the EU reference price EU budget pays for member state authorities to buy product into intervention storage. The objective is to temporarily take surplus product off the market. The intervention price is set at Euro 169.8 per 100 kilograms. According to the MMO report between June and September 2015, 19,735MT of NFDM were purchased for public intervention stocks. It is expected that purchases for public intervention will continue towards the end of 2015 and into 2016. The ceiling

of the purchases of NFDM for public intervention is 109,000 MT. The public intervention for NFDM and butter was prolonged by the European Commission from October 1, 2015 to February 29, 2016 in order to maintain continuity of intervention on the dairy market. It is expected that at the end of 2015, total stocks of NFDM under PSA and private intervention stocks will total to 80,000 MT. It is forecast that in 2016 stocks of NFDM will increase by another 20,000 MT mainly in the first quarter of the year.



Commodities:

Dairy, Dry Whole Milk Powder

Dairy, Dry Whole Milk Powder	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	720	720	650	700	0	700
Other Imports	1	1	1	2	0	1
Total Imports	1	1	1	2	0	1
Total Supply	721	721	651	702	0	701
Other Exports	389	389	345	370	0	375
Total Exports	389	389	345	370	0	375
Human Dom. Consumption	332	332	306	332	0	326
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	332	332	306	332	0	326
Total Use	721	721	651	702	0	701
Ending Stocks	0	0	0	0	0	0
Total Distribution	721	721	651	702	0	701

(1000 MT)

Production:

In 2015 WDM production is expected to decrease due to reduced export demand. In the first seven months of 2015 output of NFDM was 9 percent lower than in the same period of 2014.

Consumption:

In 2015 domestic use of WDM is expected to remain at the previous year's level.

Trade:

It is estimated that in 2015 exports of WDM will decrease as compared to 2014 because of lower supplies and reduced export demand. In the first seven months of 2015 EU-28 exports of WDM were 5 percent below the previous year's level, mainly due to reduced shipments to Algeria. Major destinations for WDM are Oman, Nigeria, and Algeria.

Policy:

The European Commission is under strong pressure from member states and farmer's organizations demanding the implementation of quick and effective measures which would stop the continuing decrease of farm-gate milk prices. After three years of high milk prices between 2011 and 2014, in 2015 EU farmers and milk processors realize that the abolition of the milk quota system will force them to become competitive and more world market oriented. External factors worsen the situation. In August 2014 Russia implemented an import ban for the EU's cheese and butter, while China slowed imports of milk powders. The European Commission tried to mitigate the decrease of farm-gate milk prices by opening PSA for NFDM and butter in September 2014 and continuing the program through 2015 and into 2016. In addition, for the first time since 2008, the European Commission implemented an old tool of subsidizing intervention stocks for NFDM and butter when these prices dropped below the intervention price.

In October 2015 the EU will implement additional PSA programs which will cover 100,000 MT of cheese and unlimited quantities of NFDM with total costs of one year of storage covered by the European Commission. Funding of the new PSA programs and additional measures like promotion of exports of EU dairy products, direction of dairy products as assistance to refugees, or increased use of dairy products in school programs will be funded from the superlevy fines collected by the Commission from member states. It is a comfortable situation for the European Commission because fines collected from farmers from 13 countries which overshot the milk production limits in 2014/2015 will finance market intervention and adjustment to world market prices for the entire EU.

The long term goal of EU post-quota policy is to base EU export prices of dairy commodities on market mechanisms and make them competitive on the world dairy market. According to the quotations of dairy products published after the September 20, 2015 meeting of the MMO in September 2015, EU prices of butter, NFDM and cheddar cheese were competitive versus US dairy products and for NFDM, almost similar with Oceania prices.

**Quotation of Dairy Product of September 20, 2015
(US\$/MT)**

	European Union	Oceania	United States
Butter	3,201	2,988	5,814
NFDM	1,943	1,938	1,973
WMP	2,425	2,300	2,811
Cheddar	3,343	3,000	3,681

Source: Milk Market Observatory Report, September 23, 2015

As a result of competitive prices, in the first seven months of 2015 the European Union exported 8,937 MT of butter to the United States, a 95 percent increase over the same period of 2014.

Although the process of adjustment of EU prices for dairy commodities to the world market has just started, it is important to notice that in the future U.S. dairy producers and exporters may face strong competition from European suppliers not only on the world but also on the U.S. domestic market.

In a longer run the crisis in the European dairy market will bring an increased efficiency of production through elimination of less efficient producers, consolidation of the dairy processing industry, and implementation of more efficient genetics and related technologies. It may also lead to re-allocation of production within the European Union, as countries with better natural conditions for dairy production like Ireland and Great Britain or cheaper land like Poland may become attractive for the creation of dairy farms and building new, highly efficient milk processing plants.

End of the report.